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707 462-4866

To: John Sumser & Jerry George / Whole Earth
Fr: John Schaeffer
Re: Pending Agreement for Fulfillment
Da: 17 June 1994

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Dear John & Jerry,

It appears that we are at a bit of a standstill in this negotiation. Let me attempt to quickly put my position down on paper as the basis for further discussion and hopefully resolution so that we can move forward with this project.

You originally came to us requesting a proposal for a fulfillment house with integrity and a reputation for excellent customer service that would aid in Whole Earth's credibility to provide books and products, displace the poor service of Whole Earth Access, and generate some incremental revenues for your very noble but struggling enterprise.

Dave Smith responded with a proposal - one that John Sumser characterised as the best he'd seen in his years at G.E. and the defense industry. After a visit from John and J. Baldwin to our facilities, we convened at your offices on December 1, 1993 for a negotiation. The outcome of that negotiation was a verbal agreement that Real Goods would do the fulfillment for the MWEC for $3.50 per new customer acquired by RG and that there would be some sort of on-page mention of access to Real Goods, the exact format to be determined later. It was further agreed that after six months of guinea pigging this agreement it would be reevaluated and determined if it was fair to both parties and renegotiated if need be at that time. Whole Earth committed at the time to give us one half of the products for the book by 1/1/94 and the final half by 3/1/94. John Sumser then printed a blurb in the WER that RG had been selected as the fulfillment house. We further agreed that you would discuss with Harper SF the potential of a RG bind-in card to advertise our Sourcebook.

Over the next several months Dave Smith brought up the issue with our internal operations department and began investigating fulfillment options with several publishers: Baker and Taylor, Ingram, and BookPeople. Dave put in his notice in early April and I picked up the ball. I was extremely eager to tie the deal up as soon as possible as RG needed at the time to have a completely firm committment as it embarked upon allocating the necessary resources to make the project happen professionally and timely. The efforts I put toward resolving the deal promptly did not meet with any sense of urgency on your part. This was partly understandable due to your pre-occupation with the very important ABA convention. I began to intensify my efforts at resolution in early May seeing that the time line was beginning to slip away and I assigned Will Ross, our

inventory control manager to heading up the task. After discussions with you both in mid-May and your assurances that we had a deal, I authorized Will Ross to hire a fulltime researcher to begin to call each and every vendor of MWEC products (and books) to determine which made sense for us to carry, lead times, discount structures, and authorized her to open up vendor relationships. She has now been working for four weeks on this task and is making good progress and is right on schedule.

We estimated at the time that she would need to spend up to 1500 hours @$10/hour to do the research on what we could carry. We authorized the $15,000 expenditure based upon the assumption and good faith that we had a deal with you. I urged Stephen Morris to prepare a draft of an agreement as our verbal urgings for closure had gone unheeded. Stephen sent you that draft agreement on June 8th, nine days ago. We finally got a conference call together yesterday and we were both totally stunned at the unexpected turn of events. Jerry broached an idea for a $30,000 production fee **that had never even been hinted at at any time in any of our discussions.** I questioned how it could possible cost that much for a computer production person to insert the same icon onto the screen in various places. I offered to send our production person in Quark down to Sausalito to do the work for you.

Stephen delivered logos to you a month ago to your offices with many ideas for the on-page icons that were to be placed by the items for which RG would fulfill. We made many attempts to get reactions to these icons, but got none. We have been under the impression that it was simply a matter of deciding from an artistic standpoint which logo to use, how big to make it, whether it should be screeened, and where it should go. Never a mention of a cost for this.

We also printed in our last *Real Goods News* that we were going to be fulfilling for MWEC, which we never would have done, had we thought this deal was in jeopardy. Let me clarify the proposition for us from a business perspective: For us to acquire names costs us anywhere from $0.10/name for a mail order buyer from another catalog to $5 or $10/name for someone we recruit through various devices on our own. We felt that a MWEC reader who ordered was not a bonafide RG customer, nor guaranteed to become one, but $3.50/name was a very reasonable amount (for both sides) to pay to acquire it. From a fulfillment standpoint, it is a losing proposition for us - by selling books that we don't normally stock causes us to reduce our margin from 55% to ~42% and our typical break-even is 47.5%. Our cost for each order that we send out is approximately $20. Giving up $3.50 to acquire the name is marginal at best for us. Further we are taking on a MAJOR operational headache which requires additional resources in unknown amounts in our busiest time of the year. It simply is not a no-brainer for us, it took us quite alot of discussion to come to terms with doing this.

In the final analysis it was our historically deeply rooted sense of affinity with Whole Earth that attracted us to this project and the great potential for enhanced synergy with your organization. It most definitely was (and is) not the money that we are going to reap through this deal that attracts us, because from an objective business standpoint it is marginal. I am becoming slightly disillusioned through this process as I feel we have performed in good faith all through this process and made every attempt to follow through in a timely fashion. We have committed significant resources and credibility to the endeavor, have primed our staff for the venture, have